

STATE OF CALIFORNIA

**BIENNIAL REPORT
of the
JOINT LEGISLATIVE AUDIT COMMITTEE**

December 31, 1964



MEMBERS OF THE COMMITTEE

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NICHOLAS C. PETRIS
LEO J. RYAN

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HUGH P. DONNELLY, *Vice Chairman*
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Joint Legislative Audit Committee

GOVERNMENT CODE: SECTIONS 10500-10504

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RICHARD L. SUGAR
TWENTY-FIRST DISTRICT
LUTHER E. GIBSON
FIFTEENTH DISTRICT

California Legislature

520 CAPITOL MAIL
SACRAMENTO, CALIFORNIA 95814

April 5, 1965

The Honorable President of the Senate
The Honorable Speaker of the Assembly
The Honorable Members of the Senate and
the Assembly of the Legislature of California

Sirs:

We transmit herewith our report covering the activities of your Joint Legislative Audit Committee for the calendar years 1963 and 1964.

This report discusses the work of the Committee and the Office of the Auditor General. In addition, it describes our program of independent audits of the executive branch of the state government.

The individual audit reports listed in Appendix A of this report include a total of 400 recommendations for improvements in accounting by agencies and funds of the state. We note with satisfaction that of the 372 responses made to these recommendations, 72% of them were accepted and only 18% were not accepted. An additional 10% are still under study by the executive branch.

Our state government is composed of almost 200 separate departments, agencies, and offices. Each of these has been audited on at least one occasion by the Office of the Auditor General during the life-span of this Committee and the general acceptance and implementation of our recommendations indicate the responsibility of your Committee and the high performance standards and technical competence of the Auditor General and his staff.

The nature of our assignment makes it most difficult to estimate the total savings in man hours, administrative delays, and actual cash expenditures our recommendations have achieved. However we can confidently claim to have returned back to the people of the state, many times over, the operating costs of your Committee and the Office of the Auditor General.

In conclusion your Committee pledges itself to continue to aid the Legislature in its duty to oversee the operations of the executive branch and to aid the executive branch in establishing sound fiscal and administrative policies.

Respectfully submitted

Michael J. Ryan

Richard F. DeSwig

Lee F. Ryan

Luther E. Gibson

William Thomas
Chairman

Hugh P. Donnelly,
Vice Chairman

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ESTABLISHMENT OF INDEPENDENT AUDITING
FOR THE EXECUTIVE AND LEGISLATIVE BRANCHES
OF GOVERNMENT

An independent audit service for the executive and legislative branches of the state government was established by the passage in the 1955 session of the State Legislature Senate Bill No. 1540, coauthored by Senators Hugh P. Donnelly and Luther E. Gibson. This bill, enacted as Chapter 1699, Statutes of 1955, added Chapter 4 to Part 2, Division 2, Title 2, of the California Government Code. This chapter is covered by Sections 10500 through 10528 of the California Government Code. The complete text of the statute is reproduced in Appendix B.

LEGISLATIVE FINDINGS AND DESIRES

The Legislature recognized the need for two types of auditing in state government, an internal audit and an independent audit.

The internal audit is described as an audit conducted within the executive branch of the state government to meet the needs of the executive branch of the state government for periodic and special audits of the revenues and expenditures of state agencies and the accounting and reporting systems established in those agencies. The internal audit is recognized as a means of insuring the proper and lawful expenditure of state funds. The Legislature stated its desire that this internal audit be coordinated in the executive branch of the government in the interest of economy and efficiency.

In contrast with the internal audit, the independent audit is placed outside the executive branch of the government under the policy direction of a committee of the Legislature. The Legislature recognized the need of the independent audit for the use of both the executive and the legislative branches of the state government in establishing a sound fiscal and administrative policy for the government of the State. The Legislature has placed

LEGISLATIVE AUDIT COMMITTEE

The Joint Legislative Audit Committee consists of three members of the Senate and three members of the Assembly. The members of the committee are appointed and vacancies occurring in that membership are filled in the manner provided for in the Joint Rules of the Senate and Assembly. The joint rules generally provide that the Senate members shall be appointed by the Committee on Rules and that Assembly members shall be appointed by the speaker of the assembly.

Chapter 1699, Statutes of 1955, provides that the Joint Legislative Audit Committee shall have continuing existence and that it may meet, act, and conduct its business at any place within the State, during the sessions of the Legislature or any recess thereof, and in the interim period between sessions.

such assistants as may be necessary, and shall be empowered to subpoena witnesses and records. Under this rule every department and agency of the state government and of every political subdivision of or in the State is required to furnish a committee such information or records as the committee deems necessary for the achievement of its purposes. The rules governing its procedure adopted by the Committee are presented in Appendix F.

OFFICE OF THE AUDITOR GENERAL

The permanent office of the Auditor General is designated as Sacramento and provisions are made for the establishment of offices in other places when in his judgment they are required for the conduct of the work. No other offices have been established.

The Auditor General during regular business hours has access to, and authority to examine, any and all books, accounts, and other records and property of any agency of the State whether created by the Constitution or otherwise.

It is the duty of the Auditor General to examine and report annually upon the financial statements prepared by the executive branch of the State; and to inform the Legislature as to the adequacy of such financial statements in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

The Auditor General is authorized to make such examinations of the accounts and records, accounting procedures and internal auditing performance as in the judgment of the committee are necessary to disclose all material facts for the use of the legislative and executive branches.

It is also the duty of the Auditor General to make such special audits and investigations of any state agency as requested by the Legislature or any committee of the Legislature.

The Auditor General and the Deputy Auditor General are certified public accountants.

AUDITOR GENERAL'S STAFF

The roster of the Office of the Auditor General at December 31, 1964 included 32 full-time employees and one part-time employee. The roster of full-time employees is summarized as follows:

Auditor General and Deputy Auditor General	2
Audit staff	28
Office staff	<u>2</u>
Total	<u>32</u>

A statistical typist is employed on a part-time basis.

The assistance of a professor of the University of California graduate school of business is used in the application of statistical sampling techniques to audit problems where applicable.

The composition of the audit staff at December 31, 1964 is as follows:

<u>Class</u>	<u>Total</u>	<u>CPAs *</u>
Audit managers	4	4
Senior accountants	8	8
Semisenior accountants	9	2
Junior accountants	<u>7</u>	<u>1</u>
Total	<u>28</u>	<u>15</u>

* Includes three members who have passed CPA examinations but have not fulfilled experience requirements for issuance of certificates.

There was an increase of three in the number of full-time accountants during the two-year period ended December 31, 1964. Ten new members were added to the staff, six were separated and one is serving in the armed forces. The

number of certified public accountants on the audit staff including those who have passed examinations but have not fulfilled their experience requirements increased from 10 to 15.

The audit staff of the Office of the Auditor General has been recruited on an exempt basis, as directed by the Joint Legislative Audit Committee and as permitted by the Joint Rules of the Senate and the Assembly.

The high standards which were established at the beginning for the recruitment of audit staff members have been consistently maintained. These standards are:

A bachelor's degree or higher with a major in accounting from a recognized college or university;

Possession of a certified public accountant's certificate, at least at the higher staff levels;

The ability to work with others on a professional plane;

A high degree of personal integrity; and

An unusual amount of curiosity, industry, perseverance, and resourcefulness.

A condition of employment on the audit staff is that a member will obtain a certificate as a certified public accountant within a reasonable time after joining the staff. This condition provides reasonable assurance that there will be a continuation of the education of the staff member, which benefits the legislative audit program as well as the staff member.

AUDIT POLICY

A statement entitled "Comments on Scope of Auditing for the Joint Legislative Audit Committee" dated October 24, 1955, prepared by the Legislative Analyst, was adopted by the committee as the audit policy for the Office of

the Auditor General. This statement is reproduced as Appendix C to this report. In adopting this audit policy the committee placed special emphasis on the following quotation taken from a report issued in 1954 on auditing and accounting in the State of California by a firm of certified public accountants:

"As to the duties and functions of the office: the auditor should have the primary duty, and necessary authority, to examine and report annually upon the financial statements of the State; such statements should be required to be furnished to him by the Director of Finance, the State Controller and State Treasurer or other principal accounting officials. This should not require the annual examination of the statements and accounts of each department or agency; the scope of the work and the selection of the agencies should be left to the discretion of the auditor and his counseling committee. He should make such other examinations or investigations as he believes desirable and those he is directed to perform by the committee only, or the Legislature acting through it. * * *

"The auditor's authority, beyond that of examining, should be confined to reporting objectively and independently. The reports should include such comments, recommendations and suggestions as the auditor wishes to make but he should have no power to enforce them nor should he otherwise influence or direct executive or legislative actions. * * *

"The objectives of these examinations are given in the definition of the term 'auditing' which was set forth earlier in this section; restated briefly they are to ascertain:

"That the executive branch is carrying out only the activities and programs authorized by the Legislature and is doing so effectively and efficiently.

"That expenditures are made and revenues are collected in accordance with the laws and regulations.

"That the assets of the State are safeguarded and utilized properly.

"That the reports and financial statements prepared by the executive branch disclose all material information necessary to a proper evaluation of the State's activities."

There has been no change in this audit policy since its adoption.

To assure that this policy is carried out, the Committee has the Auditor General submit a tentative program for audits each year for approval.

The programs carried out by the Office of the Auditor General have changed

in emphasis over a period of years. When the office was first established, investigations were made into the effectiveness of the systems of internal control in most of the state agencies to determine the extent of the tests to which audit procedures could be restricted. Then audits were made of most of the funds of the State over a period of two years. The principal funds not audited were the General Fund, the State Highway Fund, and the State Compensation Insurance Fund. Following the audit of the funds, separate audits were made of most of the state agencies at least once. The principal agencies not audited were the University of California and the State Division of Highways. The University of California is audited annually by an independent firm of certified public accountants. Reports on the audit of the University are submitted each year to the Auditor General.

During the two-year period covered by this report, the Auditor General has made an audit of the General Fund of the State for each of the years ended June 30, 1963 and June 30, 1964.

In the last year, audits have been made of as many of the other government cost funds (those in which the cost of government services to the public are recorded) as possible. In addition, audits have been made of some of the other funds (working capital funds, public service enterprise funds, bond funds, general debt service funds, and trust funds).

Much of the work in connection with the audit of the General Fund is done in the Office of the State Controller. However, it is necessary also to examine the records of a large number of the state agencies to satisfactorily complete an audit of the General Fund. In the audit of the General Fund and other audits performed by the Auditor General, statistical sampling is used as an audit technique wherever possible to provide the means of selecting representative audit samples and of measuring the reliability of the audit tests performed and to gain greater audit coverage with a limited size audit staff.

REPORTS RECEIVED AND HEARD BY THE COMMITTEE

The reports which have been received from the Office of the Auditor General during the four-year period from January 1, 1961 through December 31, 1964 are listed in Appendix A. Included in this list are 131 reports which were received by the committee during the two years ended December 31, 1964. These reports are classified as follows:

	<u>1963</u>	<u>1964</u>
Reports on examinations of financial statements of state agencies and funds	38	51
Reports on special investigations	6	10
Letter reports	—	<u>26</u>
	<u>44</u>	<u>87</u>

The Legislative Reference Service has copies of reports on examinations of financial statements of state agencies and funds and reports on special investigations issued by the Auditor General.

REPORTS ON EXAMINATIONS OF FINANCIAL STATEMENTS

The 89 reports on examinations of financial statements received from the Office of the Auditor General contain "scope" and "opinion" paragraphs recommended by the American Institute of Certified Public Accountants for use by firms of certified public accountants in reporting on audits of client organizations. These paragraphs, modified for reports on governmental audits, are as follows:

SCOPE

We have examined the balance sheet of _____ fund of the State of California as of June 30, 19____, and the related statement of revenues, expenditures, and unappropriated surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

OPINION

In our opinion, the accompanying balance sheet and statement of revenues, expenditures, and unappropriated surplus present fairly the financial position of _____ fund of the State of California as of

June 30, 19__, and the results of its operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable state laws.

These paragraphs contain three terms which have technical meaning. The meanings of the terms "generally accepted auditing standards" and "generally accepted accounting principles" as supplied by the Auditor General are shown in Appendixes D and E, respectively.

The term "examination" means a critical analysis of the underlying internal controls and accounting records of an operating entity of sufficient scope to warrant the expression of an opinion as to the propriety of the financial statements prepared from those records. To examine the financial statements of funds of the State of California, the Office of the Auditor General must make this critical analysis of the accounting records of the operating agencies where the financial transactions originate as well as the control accounts maintained by the State Controller, and review the controls established over transactions by the agency being audited as well as the controls exercised by central control agencies of the State.

In the performance of these examinations, the staff of the Office of the Auditor General meets the tests of the generally accepted auditing standards set forth in Appendix D. The Auditor General has an adequately trained staff which maintains a proper independence in mental attitude toward its tasks and uses due professional care in the performance of its work.

Further, the Auditor General in the performance of these examinations determines whether the accounting records of the state agencies are maintained in accordance with generally accepted accounting principles as set forth in Appendix E.

The fourth reporting standard shown in Appendix D requires that "The report shall either contain an expression of opinion regarding financial

Under the Sarbanes-Oxley Act, and the generally accepted accounting standard, the Auditor General has followed the rule of the American Institute of Certified Public Accountants that a auditor shall not permit his name to be associated with statements purporting to show financial position or results of operations unless he has expressed an unqualified opinion.

If the auditor expresses a qualified opinion:

(a) Expresses an adverse opinion;

(b) Disclaims an opinion on the statements taken as a whole and

indicates briefly his reasons therefor.

The auditor qualifies his opinion on financial statements because he has a reservation about them that precludes his expressing an unconditional opinion. The reservation must be material to what he expresses, but not material enough to negate his opinion on the statements as a whole. Examples are a limitation on the scope of the examination, or a departure from observing generally accepted accounting principles in recording accounting transactions.

An adverse opinion is expressed when the exceptions as to the fairness of the preparation of financial information in the auditor's judgment are so pronounced that the expression of a qualified opinion is not justified. The adverse opinion states that the financial statements do not fairly present the financial position and the results of operations.

The auditor may be required to disclaim an opinion if he has not obtained sufficient evidence to support his opinion. The disclaiming of an opinion is not to be confused with the qualified opinion. The disclaiming of an opinion is to be used when the auditor is unable to form an opinion on all the financial statements. This is done by the Auditor General issued Circular 10000, "Auditor's Report," dated January 1, 1950, which reads:

has accepted different degrees of responsibility as to parts of the financial statements. Therefore, the 89 reports contain a total of 97 expressions of opinions (unqualified, qualified, or adverse) or disclaimers of opinions. The Auditor General has expressed 61 unqualified opinions, 26 qualified opinions, and four adverse opinions and has disclaimed an opinion in six instances.

Of the 26 qualified opinions, 12 were due to dissatisfaction with the records of fixed assets, eight were due to limitations in the scope of examinations, and six were due to other conditions. The scope of the examinations was limited in the eight cases because it was not considered feasible to perform the appropriate audit steps. There were no limitations imposed upon the Auditor General by others.

Two of the adverse opinions relate to the amounts of the accounts receivable for the Bank and Corporation Tax Fund and the Personal Income Tax Fund at June 30, 1962 and at June 30, 1964. An adverse opinion was expressed on the financial statements of the California Museum of Science and Industry for the year ended June 30, 1962 because of material discrepancies in the amounts shown in the financial statements as disclosed in the report. An adverse opinion was also expressed on the financial statements of the Peace Officers' Training Fund for the year ended June 30, 1963 because of the recording of expenditures in the wrong years.

Opinions were disclaimed in the following reports for the reasons stated:

Judges' Retirement System, Year Ended June 30, 1963

The audit of the reserves for retirement allowances, death benefits and refunds was limited to the transactions for the year of audit and therefore did not provide reasonable assurance of the fairness of the reserve balances at June 30, 1963.

State Employees' Retirement Fund, Year Ended June 30, 1963

The audit of the reserve accounts was limited to the transactions of the year of the audit.

Department of Justice, Year Ended June 30, 1963

An opinion was disclaimed as to the balance sheet because of unrecorded equipment additions.

General Fund of the State of California, Year Ended June 30, 1963

An opinion was disclaimed on the fixed assets shown in the General Fund statement of financial condition because of the many misstatements of fixed assets as disclosed by examinations made of state agency accounts and covered by the reports on those examinations.

General Fund of the State of California, Year Ended June 30, 1964

An opinion was disclaimed on the amount of the fixed assets shown in the General Fund statement of financial condition because the examination of the fixed asset accounts that would have been necessary in order to express a clear opinion was not feasible. The Auditor General has taken the position that it is not necessary for the State Controller to include the accounts for fixed assets in the General Fund group of accounts. This position is in agreement with item number 7 shown under generally accepted accounting principles in Appendix E.

California Disaster Office, Year Ended June 30, 1964

An opinion was disclaimed as to the balance sheet because the records of equipment and inventories of medical supplies were incomplete and did not adequately support those items.

REPORTS ON SPECIAL INVESTIGATIONS

It is the duty of the Auditor General to make such special audits and investigations of any state agency as requested by the Legislature or any

committee of the Legislature. Requests for special investigations are approved by the Joint Legislative Audit Committee or the Chairman of the Committee in order to avoid severe curtailment of the regular audit program in the Office of the Auditor General. Sixteen reports were issued by the Auditor General on special investigations during the two years ended December 31, 1964. Some of this special work is discussed below.

Tideland Revenues and Expenditures

Because of the interest in the revenue obtained and to be obtained by the State from the operation of tideland oil properties, the Committee directed the Auditor General to make a special examination of the Long Beach tideland oil trust funds. Reports were issued on this examination to the members of the Legislature. One recommendation by the Auditor General was that a separate fund be maintained either by the State of California or the City of Long Beach in which accounting for oil revenues and the expenditures therefrom could be segregated to provide for better accountability of funds and for improved financial reporting for state purposes. During 1964, the establishment of such fund by the City of Long beach was approved by the vote of the people of the City of Long Beach. By an enactment of the Legislature in 1964, the Auditor General was directed to make an annual audit of the Long Beach tideland revenues and expenditures and to make a report thereon to the Legislature. An audit was in progress December 31, 1964 with the expectation of the issuance of a report to the 1965 session of the Legislature.

Public School Finance

The Auditor General has made audits of the State School Fund for the years ended June 30, 1958, 1959, 1961, and 1963 and has an audit in progress for the year ended June 30, 1964. The Committee has authorized these repeated audits because a substantial portion of the annual expenditures of the state

General Fund have been more apportionments to public schools. Because of the knowledge of public school accounting and finance gained through these audits, the services of the audit staff of the Auditor General have been requested from time to time by the Senate and Assembly Committees on Education in their studies of school financing.

Much of the school finance legislation introduced in the 1963 General Session and the First Extraordinary Session of the Legislature was based on recommendations which resulted from studies in which the Auditor General's staff participated. Numerous requests were made of his office by legislative committees to assist in giving technical advice and analyses with regard to specific legislation proposed. Assistance was rendered in the development and preparation of several of the major school apportionment bills, and analyses of others were made on request. Further technical advice was given on several bills which dealt with specific areas of the State School Fund. These included the County School Service Fund, the Collier factor, state and local sharing of county superintendents of schools' salary increases, project-connected pupils, teacher-ADA ratio foundation program, the countywide tax, percentages of total school district expenditures to expenditures for teachers' salaries, and independent disbursement status for some school districts.

Testimony was given in hearings before the Senate and Assembly Education Committees - the Senate Finance Committee and the Assembly Committee on Ways and Means - at both the 1963 General and Special Sessions of the Legislature.

In December, 1963, the Office of the Auditor General received a request from the Legislative Audit and Committee's Subcommittee on Finance to participate in a financial audit of the public school education program pursuant to House Bill 1000 and Senate Bill 1003, "An Act Relating to the Financial Audit of the Public Schools," introduced in the 1963 Regular Session of the Legislature. The Legislature and the Committee approved this request. The Auditor General's

participation covered primarily the financial reporting, accounting, and auditing aspects of the study which included a comprehensive study of personnel, financial, and educational factors necessary for an adequate educational program. This study was made jointly with the Office of the Legislative Analyst. Seven school districts were chosen for detailed analysis with regard to the foundation program. Individual reports on each school district studied were presented to the Assembly Education Subcommittee on School Finance. Each district report was presented at a hearing in the individual school district. The reports were prepared and presented jointly with the Office of the Legislative Analyst. A summary report on these studies, also prepared jointly with the Office of the Legislative Analyst, was presented as an appendix to a report of the Assembly Interim Committee on Education to the 1965 Session of the Legislature.

Engineering Expenditures in Division of Highways

At the request of the Commission on California State Government Organization and Economy, the Auditor General made an examination of data used to support representations made in a report of engineering expenditures of the California Division of Highways, which was issued in June 1964. The report was issued by the Division of Highways in response to charges made by engineering organizations that engineering costs of the division were excessive. Testimony was given in a hearing before the Commission by the Auditor General's staff.

Expenditure of State Funds for County Road Purposes

The Auditor General was requested by the Senate Fact Finding Committee on Transportation and Public Utilities to make an examination of state funds budgeted and expended in selected counties under the Collier-Burns Act of 1947 to determine whether there was compliance with the act in the expenditure of funds made available to the counties for highway purposes.

State Teachers' Retirement System

The Auditor General issued a report on an examination of the accounting records and procedures of the State Teachers' Retirement System as of June 30, 1962. It was his intention to make an examination of the financial statements of the system for the year ended on that date. The Auditor General withdrew from the agency in July 1963 at which time the books had not been closed for the year ended June 30, 1962. He stated in his report that the accounting system did not provide the necessary controls and the means of accurate, timely reporting of financial information and that in order to complete an examination of the financial statements of the system for the year ended June 30, 1962 he would have been compelled to continue his examination after a further lapse of time and do an inordinate amount of detail verification work on the accounts of the system.

The State makes annual contributions to the State Teachers' Retirement System in amounts equal to the difference between the annual benefits payable to retired members and the portion of those benefits provided by members' contributions and school districts' contributions. As a result of this method of financing retirement benefits, no funds are being set aside in the system for the State's portion of the obligation for accrued cost of benefits for retired members nor for the accrued costs or accruing cost of service rendered or being rendered by active members. The most recent actuarial balance sheet of the State Teachers' Retirement System as of June 30, 1960 showed the present value at that date of the state portion of the contributions to be made after June 30, 1960 to provide for the benefits granted or to be granted under the State Teachers' Retirement Law was \$1.3 billion. The Auditor General has recommended that the accruing costs of teachers' retirement benefits be funded on a current basis.

Legislation was enacted in 1963 to help correct the inadequacies of the accounting records of the system. Provision was made for the withholding of

payments from the State School Fund to counties whose annual reports to the system are not received by the system six months after the close of a fiscal year. Also, a change was made in the composition of the Teachers' Retirement Board as recommended by the Auditor General in his first report on the system. The new board is expected to bring about the changes in policy and management of the system that will eventually eliminate the deficiencies reported by the Auditor General. It is expected that any state agency having the responsibility for accounting and related records should maintain such records at acceptable standards that will permit the drawing from those records timely reports of accountability for those who are entitled thereto and that these reports and records be susceptible of verification by the Office of the Auditor General.

The Auditor General has proposed that the State Teachers' Retirement Board make an annual report to the Legislature that contains such information as the Legislature may consider pertinent.

Internal Auditing

The Auditor General has issued a series of special reports on internal auditing in the executive branch of the state government. Internal auditing has been conducted at two levels in the executive branch, certain larger departments have their own internal audit staffs and the Department of Finance has a central audit staff of over 100 auditors. The Auditor General has recommended that, in order to prevent overlapping and duplication and to provide for better utilization of the internal audit services by management, the basic internal audit function be performed by units responsible to agency administrators. The units would be formed by transfers of auditors from the Department of Finance central audit staff and the other departmental auditors to the agency administrators. This would place internal auditing which is represented as

being a management tool in management's hands. He has recommended that a small staff of highly qualified auditors be retained by the Director of Finance to review the work of internal auditors to assure the chief executive's fiscal officer that the internal audit function is working efficiently.

The Department of Finance has indicated that it did not disagree with the Auditor General's view as to the proper placement of the internal audit function but that it was a matter of proper timing, i.e., that the reassignment of audit staffs to agency administrators would work only when the concept of the agency administrator became a completed concept rather than the present limited concept.

Department of Water Resources

Two reports on special investigations in the Department of Water Resources have been issued during the two years ended June 30, 1964. One report covered internal auditing in the department and the other was a review of the accounting system. The review of the accounting system was made to determine the progress that had been made by the department in improving its accounting procedures and eliminating the deficiencies noted in the Auditor General's report on the department for the year ended June 30, 1961. The rapid growth in the department because of the increase in variety and magnitude of its programs has placed a great demand upon its accounting system with the result that the department has been unable to produce accurate, timely financial reports. An examination of the records of the department for the year ended June 30, 1964 was in progress at December 31, 1964. This examination includes a special study to delineate the difficulties the department is experiencing in the matter of fiscal control and financial reporting and to suggest possible solutions to the problems.

State Highway Fund

The accounting system of the State Highway Fund has not provided the accurate and timely reporting of accounting data with the degree of control which

would permit an audit of the fund with a reasonable expenditure of manpower. Therefore, the Auditor General's work in the Division of Highways has been limited to the examination of expenditures under highway contracts and to limited reviews to test the soundness of accounting procedures and the overall system of internal control. The objective of this work and the recommendations that have been made have been to encourage the improvements in the accounting system that will make an audit of the State Highway Fund feasible.

Late in 1962 a national firm of certified public accountants was engaged to review the electronic data processing applications in the Division of Highways. Revised accounting procedures and management reporting system became operative on July 1, 1964. This revised system does not provide for the current billing of the federal aid portion of highway costs and still does not provide accurate and timely reporting of accounting data with the degree of control permitting an audit of the fund with a reasonable expenditure of manpower. The Auditor General with the approval of the Joint Legislative Audit Committee had planned to make the first audit of the State Highway Fund for the year ending June 30, 1965, and some long-range planning had been done in preparation for this audit. However, because the accounting system of the division was still inadequate as of December 31, 1964, an audit of the State Highway Fund is being deferred until the year ending June 30, 1966. In the meantime, a limited examination of accounting controls and procedures will be continued in preparation for the audit of the fund.

The estimated expenditures of the State Highway Fund for the 1964-65 fiscal year are \$933 million which is a significant part of the total funds administered by the state government. It is the position of the Committee that the management of the state highway program has a responsibility to maintain

a sound accounting system and provide adequate reports of financial accountability that are susceptible of reasonable verification by the Office of the Auditor General.

LETTER REPORTS

The 26 letter reports written in 1964 related to work done in agencies in connection with the audit of the General Fund for the year ended June 30, 1964. Inasmuch as separate reports were not issued for those agencies, the Auditor General wrote letters to the department heads in which he summarized deficiencies that had been discussed with agency personnel. Copies of these letter reports were sent to the Chairman of the Committee.

RECOMMENDATIONS IN REPORTS

The reports received from the Auditor General during the two-year period covered by this report contained approximately 400 recommendations. The broad categories covered by these recommendations and the percentages of the total recommendations applying to each category are as follows:

<u>Category</u>	<u>Percentage</u>
Improvement in accounting and related procedures	59%
Improvement in internal control over transactions and operations	15
Changes for economy and efficiency	7
Changes requiring legislation	6
Improvement in quality of accounting work performed	4
Improvement in reporting	3
Sundry	<u>6</u>

The Auditor General's reports are distributed first to the members of the Joint Legislative Audit Committee. Upon release of the reports by the

Committee, the reports are released to the following persons or agencies:

Agency audited

Director of the Department of Finance as the
Governor's fiscal manager

Department of General Services - Systems
Analysis Section

State Controller

Legislative Budget Committee

Legislative Reference Service

In addition, the Committee refers copies of the reports to other committees of the Legislature for action by them.

When reports are transmitted to the agencies audited, the agencies are requested to submit to the Joint Legislative Audit Committee their comments on the findings and recommendations of the Auditor General. In those cases in which the agencies disagree with the recommendations, they are asked to state the reasons for their disagreement.

Agencies have responded to 372 recommendations made during the period covered by this report. The agencies indicated that they agreed with 72% of the recommendations, disagreed with 18% and reported studies were being made of the remaining 10%.

The Auditor General has been instructed to determine during subsequent audits of agencies and funds whether reported deficiencies have been corrected. It is expected that the internal audit staff of the Department of Finance and the staff services of the Department of General Services who receive copies of the Auditor General's reports will also observe action taken with respect to the recommendations of the Auditor General.

WORK IN PROGRESS

At December 31, 1964, the following reports were being processed on audits for the year ended June 30, 1964 for which field work had been completed:

Men's Colony - Department of Corrections
Bank and Corporation Tax Fund and
Personal Income Tax Fund
Department of Social Welfare
Department of Mental Hygiene
Insurance Tax Fund
State Water Pollution Control Fund
Soil Conservation Development Fund
Petroleum and Gas Fund
Subsidence Abatement Fund
State Park Contingent Fund

Field work was in progress at December 31, 1964 on the following audit assignments for the year ended June 30, 1964 except as noted:

Legislators' Retirement Fund (June 30, 1965)
Long Beach tideland revenues and expenditures
Secretary of State
Department of General Services
Services Revolving Fund
State Employees' Retirement Fund (June 30, 1965)
Old Age and Survivors' Insurance Fund (June 30, 1965)
State Employees' Contingency Revolving Fund (June 30, 1965)
State School Fund
School Land Fund
Pooled Money and Surplus Money Investment Funds
Special Deposit Fund
Bond Funds
Public Building Construction Fund
Unclaimed Property Fund
Fair and Exposition Fund
Modesto State Hospital
Metropolitan State Hospital
Department of Professional and Vocational Standards
Department of Water Resources

TIME REPORTED ON ASSIGNMENTS

The hours reported on assignments by the staff of the Office of the Auditor General for the calendar years 1963 and 1964 are classified below by functions of state government.

<u>Function</u>	<u>1963</u>	<u>1964</u>
Legislative - includes special work for committees	1,888	4,984
Judicial	127	390
Executive	-	1,050
General administrative	1,244	2,021
Agriculture	23	5
Corrections:		
Adult	2,182	1,847
Youth	1,517	1,411
Education	5,794	3,609
Higher Education	2,884	2,651
Employment	5,762	498
Fiscal Affairs:		
Board of Control	82	-
State Controller	3,576	7,673
Board of Equalization	5,588	1,024
Department of Finance	353	1,625
Franchise Tax Board	540	1,526
State Treasurer	405	195
Health and Welfare:		
Agency administration	-	15
Mental Hygiene	2,437	4,261
Public Health	-	705
Rehabilitation	-	77
Social Welfare	1,669	971
Highway Transportation:		
Agency administration	638	44
Motor Vehicles	111	-
Public Works	1,962	3,691
Industrial Relations	-	148
Justice	798	277
Military Affairs	-	362
Regulation and Licensing	368	1,716
Resources:		
Agency administration	-	56
Conservation	787	811
Fish and Game	308	6
Parks and Recreation	34	959
Water Resources	2,741	3,054
San Francisco Port Authority	513	6
Veterans Affairs	72	5
Miscellaneous	<u>972</u>	<u>499</u>
Total	<u>45,375</u>	<u>48,172</u>

THE AMERICAN
FEDERATION OF
TELEGRAMS
AND TELETYPE
WORKERS
OF THE
UNITED STATES
AND CANADA

LOCAL UNION NO. 100
TEN THOUSAND
DOLLARS

BUDGET APPROVED

The following statement of the financial condition of the Local Union No. 100, American Federation of Telegrams and Teletype Workers of the United States and Canada, for the year ended December 31, 1964, was adopted after full consideration by the Board of Directors and the General Assembly and was ratified by unanimous resolution of the General Assembly. A statement of expenditures and an analysis of changes in the account for the two years ended December 31, 1964 are shown below:

Statement of Expenditures
Two Years Ended December 31, 1964

	<u>Year Ended December 31</u>	
	<u>1963</u>	<u>1964</u>
Salaries	\$285,143	\$332,850
Employee benefits	15,059	15,059
Travel expense	19,742	23,794
Committee expense	11,542	14,274
Office rent	8,112	8,112
Supplies and office equipment	1,177	1,177
Entertainment	1,500	1,500
Local dues	1,900	1,900
Total Expenditures	\$332,850	\$332,850

The above statement of financial condition is based upon the financial records of the Local Union No. 100, American Federation of Telegrams and Teletype Workers of the United States and Canada, for the period January 1, 1964, to December 31, 1964. The financial records of the Local Union No. 100, American Federation of Telegrams and Teletype Workers of the United States and Canada, for the period January 1, 1963, to December 31, 1963, were audited by the Audit Committee of the Board of Directors and the General Assembly.

The financial records of the Local Union No. 100, American Federation of Telegrams and Teletype Workers of the United States and Canada, for the period January 1, 1964, to December 31, 1964, were audited by the Audit Committee of the Board of Directors and the General Assembly.

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Statement of Changes in Allotment Account
Two Years Ended December 31, 1964

	<u>Year Ended December 31</u>	
	<u>1963</u>	<u>1964</u>
Allotment available at beginning of Year	\$199,985	\$218,178
Allotments from Assembly and Senate contingent funds:		
ACR 63, 1963 General Session	340,000	<u>430,000</u>
ACR 13, 1964 Budget Session	<u>539,985</u>	<u>648,178</u>
Expenditures	<u>321,807</u>	<u>378,299</u>
Allotment available at end of year	<u>\$218,178</u>	<u>\$269,879</u>

Allotments from Assembly and Senate contingent funds are made each session in the approximate amount needed for the operation of the Committee for the fiscal year beginning on the following July 1. The balance of the allotment available at the end of a calendar year is the approximate amount needed for the operation of the Committee through the succeeding June 30.

(1)

(2)

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REPORTS ISSUED BY THE OFFICE OF THE AUDITOR GENERAL
DURING THE FOUR YEARS ENDED DECEMBER 31, 1964

LEGISLATIVE

Report on Examinations of Transactions of California Olympic Commission, November 1, 1960 to June 30, 1961 and the Organizing Committee, VIII Olympic Winter Games, Squaw Valley, California, U.S.A., 1960, Incorporated, November 1, 1960 to August 31, 1961 (October 11, 1961) 2 pp., 6 statements.

Summary of Audit Findings on California Olympic Commission and the Organizing Committee, VIII Olympic Winter Games (February 2, 1962) 8 pp., 4 appendixes.

Answers to Questions Raised at Joint Meeting of Assembly Committees on Ways and Means and Constitutional Amendments, March 6, 1962, and Financial Statements of the School Land Fund as of February 28, 1962 (March 22, 1962) 8 pp., 5 statements.

Summary Report on Work Performed for the Senate Fact Finding Committee on Education with Regard to Senate Bill 276 (Murdy - 1961 General Session) (May 2, 1962) 16 pp.

Report on Special Study of Public School Financing (December 4, 1962) 3 pp. (Prepared for the Assembly Interim Committee on Education).

Report on Examination of Legislators' Retirement Fund, Year Ended June 30, 1961 (April 1, 1963) 8 pp., 2 statements.

Progress Report on Study of Long Beach Tideland Oil Trust Funds (April 30, 1963) 12 pp., Appendix 11 pp.

Summary Report on Special Study of Public School Financing (August 27, 1963) 3 pp., 1 attachment.

Progress Report on Review of Long Beach Tideland Operations (September 19, 1963) 5 pp.

Report on Examination of California Law Revision Commission, Year Ended June 30, 1963 (January 23, 1964) 3 pp., 3 statements.

Report on Examination of Commission on Uniform State Laws, Year Ended June 30, 1963 (January 23, 1964) 2 pp., 2 statements.

Report on Examination of Legislative Counsel Bureau, Year Ended June 30, 1963 (January 23, 1964) 3 pp., 3 statements.

Annual Report on State Park Concession Contracts (February 25, 1964) 1 pp. (Printed in Assembly Journal, March 3, 1964 - Regular Budget Session) (Prepared in compliance with Section 5019.26 of the Public Resources Code)

LEGISLATIVE (Cont.)

Letter Report to Commission on California State Government Organization and Economy re Engineering Expenditures in the Division of Highways (September 25, 1964) 4 pp.

Letter Report to Senate Fact Finding Committee on Transportation and Public Utilities re state funds expended by counties under the Collier-Burns Act of 1947 (September 25, 1964) 11 pp.

Letter Report to Commission on California State Government Organization and Economy re Engineering Expenditures in the Division of Highways (October 15, 1964) 5 pp., appendix 1 p.

Summary Report on Special Study of Public School Financing (December 30, 1964) 4 pp.

JUDICIAL

Report on Examination of District Court of Appeal - Second Appellate District, Year Ended June 30, 1962 (February 6, 1963) 3 pp., 3 statements.

Report on Examination of District Court of Appeal - Third Appellate District, Year Ended June 30, 1962 (February 7, 1963) 4 pp., 3 statements.

Report on Examination of Supreme Court, Year Ended June 30, 1963 (March 26, 1964) 3 pp., 3 statements.

Report on Examination of District Court of Appeal - First Appellate District, Year Ended June 30, 1963 (March 26, 1964) 3 pp., 3 statements.

Report on Examination of Judicial Council, Year Ended June 30, 1963 (March 26, 1964) 3 pp., 3 statements.

Report on Examination of Commission on Judicial Qualifications, Year Ended June 30, 1963 (March 26, 1964) 3 pp., 3 statements.

Report on Examination of Judges Retirement Fund, Year Ended June 30, 1963 (June 1, 1964) 8 pp., 2 statements.

EXECUTIVE

Report on Examination of Governor's Advisory Commission on Housing Problems, Year Ended June 30, 1963 (March 21, 1964) 4 pp., 3 statements.

Report on Examination of Office of the Governor, Year Ended June 30, 1963 (April 2, 1964) 4 pp., 3 statements.

Report on Examination of Office of Consumer Counsel, Year Ended June 30, 1961 (April 2, 1964) 5 pp., 3 statements.

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er 25, Report on Examination of Office of the Lieutenant Governor, Year Ended June 30, 1963 (May 29, 1964) 3 pp., 2 statements.

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t Report on Examination of California Disaster Office, Year Ended June 30, 1963 (June 23, 1964) 9 pp., 4 statements.

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State Employees' Retirement System

964) Report on Examination of State Employees' Retirement Fund, Year Ended June 30, 1961 (April 1, 1963) 24 pp., 2 statements.

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ct, Report on Examination of Old Age and Survivors' Insurance Revolving Fund, Year Ended June 30, 1961 (April 1, 1963) 8 pp., 1 statement.

Department of General Services

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.ct, Progress Report on Review of Electronic Data Processing System, Division of Architecture (July 12, 1962) 7 pp.

Report on Examination of Architecture Revolving Fund, Year Ended June 30, 1961 (August 24, 1962) 38 pp., 4 statements.

.26, Report on Examination of Architecture Public Building Fund, Year Ended June 30, 1961 (August 24, 1962) 11 pp., 3 statements.

Report on Examination of Division of Architecture, General Fund, Year Ended June 30, 1961 (August 24, 1962) 6 pp., 3 statements.

Report on Examination of Public Building Construction Fund, Year Ended June 30, 1962 (May 10, 1963) 5 pp., 2 statements.

Report on Examination of Capitol Building and Planning Commission, General Fund, Year Ended June 30, 1962 (January 10, 1963) 2 pp., 2 statements.

Personnel Board

is,
Report on Examination of State Personnel Board, Year Ended June 30, 1960 (May 5, 1961) 13 pp., 3 statements.

Secretary of State

Report on Examination of the Office of the Secretary of State, Year Ended June 30, 1962 (January 25, 1963) 5 pp., 4 statements.

AGRICULTURE

Report on Examination of Department of Agriculture, Year Ended June 30, 1961
(September 4, 1962) 16 pp., 11 statements.

Report on Examination of Poultry Improvement Commission - Poultry Testing Project Fund, Year Ended June 30, 1961 (September 4, 1962) 4 pp., 3 statements.

Report on Examination of California Museum of Science and Industry, Year Ended June 30, 1962 (March 5, 1963) 15 pp., 3 statements.

CORRECTIONS

Department of Corrections

Report on Examination of Department of Corrections - Departmental Administration, Year Ended June 30, 1963 (April 8, 1964) 12 pp., 4 statements.

Penal Institutions

Report on Examination of California Men's Colony - West Facility, Year Ended June 30, 1961 (December 29, 1961) 6 pp., 5 statements.

Report on Examination of California Men's Colony - East Facility, Year Ended June 30, 1961 (December 29, 1961) 6 pp., 5 statements.

Report on Examination of California Medical Facility, Year Ended June 30, 1961 (December 29, 1961) 20 pp., 5 statements.

Report on Examination of Folsom Prison - Correctional Industries Revolving Fund, Year Ended December 31, 1961 (May 22, 1962) 19 pp., 5 statements.

Report on Examination of California Institution for Women - Correctional Industries Revolving Fund, Year Ended December 31, 1961 (May 22, 1962) 4 pp., 2 statements.

Report on Examination of California Institution for Men - Correctional Industries Revolving Fund, Year Ended December 31, 1961 (May 22, 1962) 5 pp., 2 statements.

Report on Examination of Correctional Training Facility - North Facility, Year Ended June 30, 1962 (October 17, 1962) 3 pp., 7 statements.

Report on Examination of Correctional Training Facility, Soledad - Correctional Industries Revolving Fund, Year Ended December 31, 1962 (August 9, 1963) 4 pp., 5 statements.

Report on Examination of State Prison at San Quentin - Correctional Industries Revolving Fund, Year Ended December 31, 1962 (August 9, 1963) 8 pp., 5 statements.

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Penal Institutions (Cont.)

Report on Examination of California Institution for Women, Year Ended June 30, 1963 (February 28, 1964) 4 pp., 5 statements.

Report on Examination of State Prison at San Quentin, Year Ended June 30, 1963 (May 1, 1964) 6 pp., 5 statements.

Letter Report on Examination of the Accounts of Institution for Men, Year Ended June 30, 1964 (September 4, 1964) 2 pp.

Letter Report on an Examination of the Accounts of Deuel Vocational Institution, Year Ended June 30, 1964 (September 30, 1964) 2 pp.

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Department of the Youth Authority

Report on Examination of Department of the Youth Authority - Youth Authority Camps, Year Ended June 30, 1960 (March 27, 1961) 4 pp., 4 statements.

Report on Examination of Department of the Youth Authority - Departmental Administration, Year Ended June 30, 1962 (February 14, 1963) 14 pp., 4 statements.

Correctional Schools

Report on Examination of Preston School of Industry, Year Ended June 30, 1962 (February 19, 1963) 7 pp., 5 statements.

Report on Examination of Northern California Reception Center and Clinic, Year Ended June 30, 1962 (March 6, 1963) 5 pp., 4 statements.

Report on Examination of Los Guilucos School for Girls, Year Ended June 30, 1963 (January 15, 1964) 5 pp., 5 statements.

Report on Examination of Paso Robles School for Boys, Year Ended June 30, 1963 (February 19, 1964) 5 pp., 5 statements.

Report on Examination of Fred C. Nelles School for Boys, Year Ended June 30, 1963 (February 3, 1964) 7 pp., 6 statements.

Report on Examination of Fricot Ranch School for Boys, Year Ended June 30, 1963 (June 17, 1964) 4 pp., 5 statements.

Report on Examination of Youth Training School, Year Ended June 30, 1963 (June 17, 1964) 3 pp., 4 statements.

Report on Examination of Ventura School for Girls, Year Ended June 30, 1963 (June 25, 1964) 3 pp., 5 statements.

Letter Report on an Examination of the Accounts of Southern California Reception Center and Clinic, Year Ended June 30, 1964 (October 20, 1964) 1 p.

EDUCATION AND STATE TEACHERS' RETIREMENT SYSTEM

Department of Education

Report on Examination of State Scholarship Commission, Year Ended June 30, 1960
(March 28, 1961) 5 pp., 3 statements.

Report on Examination of the State School Fund, Year Ended June 30, 1961
(May 1, 1962) 13 pp., 2 statements, appendix 5 pp.

Report on Examination of Department of Education - Departmental Headquarters,
Year Ended June 30, 1963 (June 30, 1964) 4 pp., 7 statements.

Report on Examination of the State School Fund, Year Ended June 30, 1963
(May 29, 1964) 10 pp., 2 statements.

Special Schools for Physically Handicapped Children

Report on Examination of California School for the Deaf, Berkeley, Year Ended
June 30, 1962 (March 20, 1963) 5 pp., 4 statements.

Report on Examination of California School for the Blind, Berkeley, Year Ended
June 30, 1962 (March 26, 1963) 5 pp., 4 statements.

Report on Examination of California School for the Deaf, Riverside, Year Ended
June 30, 1962 (May 8, 1963) 4 pp., 4 statements.

Report on Examination of School for Cerebral Palsied Children, Northern
California, Year Ended June 30, 1962 (April 23, 1963) 5 pp., 4 statements.

Letter Report on an Examination of the Accounts of the School for Cerebral
Palsied Children, Northern California, Year Ended June 30, 1964
(September 3, 1964) 2 pp.

State Teachers' Retirement System

Report on Examination of Accounting Records and Procedures - State Teachers'
Retirement System. June 30, 1962 (March 20, 1964) 40 pp.

Report on Examination of State Teachers' Retirement System - General Fund,
Year Ended June 30, 1962 (March 20, 1964) 4 pp., 3 statements.

HIGHER EDUCATION

Hastings College of Law

Report on Examination of Hastings College of Law, Year Ended June 30, 1962
(March 15, 1963) 4 pp., 3 statements.

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the Colleges

ed June 30, 1 Report on Examination of Los Angeles State College of Applied Arts and Sciences, Year Ended June 30, 1960 (February 6, 1961) 10 pp., 5 statements.

30, 1961 Report on Examination of San Francisco State College, Year Ended June 30, 1961 (February 1, 1962) 10 pp., 6 statements.

Headquarters, Report on Examination of San Fernando Valley State College, Year Ended June 30, 1961 (May 3, 1962) 14 pp., 5 statements.

30, 1963 Report on Examination of California State Polytechnic College, Year Ended June 30, 1961 (September 17, 1962) 7 pp., 4 statements.

Report on Examination of Orange County State College, Year Ended June 30, 1962 (November 14, 1962) 6 pp., 5 statements.

y, Year Ended Report on Examination of Fresno State College, Year Ended June 30, 1962 (December 19, 1962) 5 pp., 5 statements.

3y, Year Ende Report on Examination of Sacramento State College, Year Ended June 30, 1962 (December 27, 1962) 6 pp., 5 statements.

le, Year Ende Report on Examination of Chico State College, Year Ended June 30, 1962 (January 31, 1963) 6 pp., 5 statements.

rthern statements. Report on Examination of Stanislaus State College, Year Ended June 30, 1963 (January 21, 1964) 5 pp., 5 statements.

Cerebral Report on Examination of Long Beach State College, Year Ended June 30, 1963 (January 27, 1964) 6 pp., 5 statements.

Report on Examination of San Diego State College, Year Ended June 30, 1963 (January 24, 1964) 7 pp., 5 statements.

Teachers' Report on Examination of State College for Alameda County, Year Ended June 30, 1963 (January 31, 1964) 5 pp., 5 statements.

al Fund, Report on Examination of Humboldt State College, Year Ended June 30, 1963 (February 5, 1964) 5 pp., 6 statements.

Report on Examination of San Jose State College, Year Ended June 30, 1963 (April 13, 1964) 4 pp., 6 statements.

0, 1962 Letter Report on an Examination of the Accounts of California State College at Los Angeles, Year Ended June 30, 1964 (September 18, 1964) 3 pp.

Letter Report on an Examination of the Accounts of California State College at Fullerton, Year Ended June 30, 1964 (September 22, 1964) 3 pp.

Letter Report on an Examination of the Accounts of the Board of Trustees of the California State Colleges, Year Ended June 30, 1964 (October 22, 1964) 1 p.

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State Colleges

Report on Examination of Los Angeles State College of Applied Arts and Sciences, Year Ended June 30, 1960 (February 6, 1961) 10 pp., 5 statements.

Report on Examination of San Francisco State College, Year Ended June 30, 1961 (February 1, 1962) 10 pp., 6 statements.

Report on Examination of San Fernando Valley State College, Year Ended June 30, 1961 (May 3, 1962) 14 pp., 5 statements.

Report on Examination of California State Polytechnic College, Year Ended June 30, 1961 (September 17, 1962) 7 pp., 4 statements.

Report on Examination of Orange County State College, Year Ended June 30, 1962 (November 14, 1962) 6 pp., 5 statements.

Report on Examination of Fresno State College, Year Ended June 30, 1962 (December 19, 1962) 5 pp., 5 statements.

Report on Examination of Sacramento State College, Year Ended June 30, 1962 (December 27, 1962) 6 pp., 5 statements.

Report on Examination of Chico State College, Year Ended June 30, 1962 (January 31, 1963) 6 pp., 5 statements.

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Report on Examination of Long Beach State College, Year Ended June 30, 1963 (January 27, 1964) 6 pp., 5 statements.

Report on Examination of San Diego State College, Year Ended June 30, 1963 (January 24, 1964) 7 pp., 5 statements.

Report on Examination of State College for Alameda County, Year Ended June 30, 1963 (January 31, 1964) 5 pp., 5 statements.

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State Colleges (Cont.)

Letter Report on an Examination of the Accounts of Fresno State College, Year Ended June 30, 1964 (November 18, 1964) 2 pp.

Letter Report on an Examination of the Accounts of California State Polytechnic College, Kellogg-Voorhis Campus at Pomona, Year Ended June 30, 1964 (November 23, 1964) 3 pp.

Letter Report on an Examination of the Accounts of California State College at Sacramento, Year Ended June 30, 1964 (November 23, 1964) 2 pp.

Letter Report on an Examination of the Accounts of California State Polytechnic College, San Luis Obispo, Year Ended June 30, 1964 (November 25, 1964) 3 pp.

Letter Report on an Examination of the Accounts of Chico State College, Year Ended June 30, 1964 (December 30, 1964) 3 pp.

EMPLOYMENT

Report on Examination of Department of Employment, Year Ended June 30, 1963 (May 25, 1964) 36 pp., 2 statements.

FISCAL AFFAIRS

Board of Control

Report on Examination of State Board of Control, Year Ended June 30, 1962 (February 25, 1963) 3 pp., 4 statements.

State Controller

Report on Examination of General Fund Support Activities, State Controller, Year Ended June 30, 1960 (August 2, 1961) 7 pp., 4 statements.

Report on Examination of Inheritance Tax Fund and Gift Tax Fund, Year Ended June 30, 1961 (November 21, 1961) 3 pp., 2 statements.

Report on Examination of Special Deposit Fund, Year Ended June 30, 1961 (June 29, 1962) 3 pp., 2 statements.

Report on Examination of Public School Building Loan Fund, State School Building Aid Fund, State School Building Fund, Year Ended June 30, 1963 (March 19, 1964) 8 pp., 2 statements.

Report on Examination of the General Fund, Year Ended June 30, 1963 (May 22, 1964) 6 pp., 6 statements.

FISCAL AFFAIRS (Cont.)

State Controller (Cont.)

Report on Examination of the Inheritance Tax Fund and Gift Tax Fund, Year Ended June 30, 1964 (October 22, 1964) 4 pp., 2 statements.

Letter Report on an Examination of the Accounts of the State Controller's Administrative Office, Year Ended June 30, 1964 (September 30, 1964) 1 p.

Report on Examination of the General Fund, Year Ended June 30, 1964 (December 30, 1964) 2 pp., 4 statements.

Board of Equalization

Letter Report re Review of Internal Auditing in the State Board of Equalization (June 4, 1963) 6 pp.

Report on Examination of the Board of Equalization, Year Ended June 30, 1963 (July 20, 1964) 40 pp., 7 statements.

Letter Report on an Examination of the Revenue Transactions in the Retail Sales Tax Fund, Year Ended June 30, 1964 (December 30, 1964) 1 p.

Department of Finance

Report on Examination of State Printing Fund, Year Ended June 30, 1961 (December 19, 1961) 19 pp., 3 statements.

Report on Examination of the Department of Finance, Year Ended June 30, 1960 (November 16, 1961) 7 pp., 4 statements.

Report on Examination of Purchasing Revolving Fund, Year Ended June 30, 1961 (May 10, 1962) 6 pp., 7 statements.

Report on Examination of State Lands Division of the Department of Finance, Year Ended June 30, 1962 (February 14, 1963) 7 pp., 4 statements.

Report on Examination of State Fair Fund, Year Ended June 30, 1963 (May 8, 1964) 3 pp., 3 statements.

Report on Examination of Fair and Exposition Fund, Year Ended June 30, 1963 (June 5, 1964) 4 pp., 3 statements.

Franchise Tax Board

Report on Examination of Franchise Tax Board, Year Ended June 30, 1962 (July 1, 1963) 25 pp., 3 statements.

FISCAL AFFAIRS (Cont.)

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Letter Report on an Examination of the Accounts of the Franchise Tax Board,
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Report on Examination of Bank and Corporation Tax Fund and Personal Income
Tax Fund, Year Ended June 30, 1964 (December 30, 1964) 9 pp., 2 statements.

State Treasurer

Report on Examination of State Treasurer, Year Ended June 30, 1963
(January 16, 1964) 5 pp., 3 statements.

Report on Examination of Pooled Money Investment Board including the Pooled
Money Investment Accounts, Surplus Money Investment Fund, Condemnation
Deposits Fund, Year Ended June 30, 1963 (January 17, 1964) 4 pp., 2 statements.

HEALTH AND WELFARE

Letter Report on an Examination of the Accounts of the Health and Welfare
Agency, Year Ended June 30, 1964 (October 6, 1964) 1 p.

Report on Examination of Citizens' Advisory Committee on Aging, Year Ended
June 30, 1962 (March 26, 1963) 3 pp., 3 statements.

Department of Mental Hygiene

Report on Review of Accounting and Operating Procedures, December 31, 1960,
Bureau of Patients' Accounts, Department of Mental Hygiene (July 17, 1961)
20 pp.

Report on Examination of Department of Mental Hygiene, Departmental
Administration, Year Ended June 30, 1960 (July 19, 1961) 10 pp.,
5 statements.

Report on Examination of Guardianship Accounts - Department of Mental
Hygiene, Year Ended June 30, 1963 (June 5, 1964) 9 pp., 3 statements.

Report on Examination of Outpatient Mental Hygiene Clinics, Year Ended
June 30, 1962 (January 7, 1963) 6 pp., 3 statements.

Report on Examination of The Langley Porter Neuropsychiatric Institute,
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Report on Examination of Neuropsychiatric Institute at University of
California at Los Angeles, Year Ended June 30, 1961 (February 20, 1962)
9 pp., 5 statements.

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Report on Examination of Modesto State Hospital, Year Ended June 30, 1960
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Report on Examination of Camarillo State Hospital, Year Ended June 30, 1960
(May 17, 1961) 21 pp., 6 statements.

Report on Examination of Agnews State Hospital, Year Ended June 30, 1960
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Report on Examination of Napa State Hospital, Year Ended June 30, 1961
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Report on Examination of Patton State Hospital, Year Ended June 30, 1961
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Report on Examination of Mendocino State Hospital, Year Ended June 30, 1962
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Report on Examination of Stockton State Hospital, Year Ended June 30, 1962
(February 21, 1963) 9 pp., 5 statements.

Report on Examination of DeWitt State Hospital, Year Ended June 30, 1963
(February 14, 1964) 7 pp., 5 statements.

Letter Report on an Examination of the Accounts of Camarillo State Hospital,
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Letter Report on an Examination of the Accounts of Atascadero State
Hospital, Year Ended June 30, 1964 (November 24, 1964) 2 pp.

Letter Report on an Examination of the Accounts of Agnews State Hospital,
Year Ended June 30, 1964 (November 24, 1964) 3 pp.

Hospitals for Mentally Retarded

Report on Examination of Fairview State Hospital, Year Ended June 30, 1961
(May 31, 1962) 6 pp., 6 statements.

Report on Examination of Sonoma State Hospital, Year Ended June 30, 1962
(February 25, 1963) 6 pp., 4 statements.

Report on Examination of Pacific State Hospital, Year Ended June 30, 1962
(May 22, 1963) 8 pp., 5 statements.

Report on Examination of Porterville State Hospital, Year Ended June 30,
1963 (January 20, 1964) 5 pp., 5 statements.

HEALTH AND WELFARE (Cont.)

Department of Public Health

Report on Examination of Department of Public Health, Year Ended June 30, 1960
(April 21, 1961) 11 pp., 7 statements.

Letter Report on an Examination of the Accounts of the Department of Public Health, Year Ended June 30, 1964 (November 24, 1964) 2 pp.

Department of Rehabilitation

Report on Examination of Oakland Center - California Industries for the Blind, Year Ended June 30, 1961 (December 18, 1961) 5 pp., 5 statements.

Report on Examination of San Diego Center - California Industries for the Blind, Year Ended June 30, 1961 (December 19, 1961) 4 pp., 5 statements.

Report on Examination of Los Angeles Center - California Industries for the Blind, Year Ended June 30, 1961 (December 21, 1961) 7 pp., 5 statements.

Report on Examination of Opportunity Work Centers Revolving Fund, Year Ended June 30, 1963 (March 19, 1964) 2 pp., 2 statements.

Department of Social Welfare

Report on Examination of Department of Social Welfare, Year Ended June 30, 1962 (November 8, 1963) 6 pp., 6 statements.

HIGHWAY TRANSPORTATION

Highway Transportation Agency Administrator

Report on a Review of Internal Auditing Within the Highway Transportation Agency, 1963 (January 17, 1964) 30 pp.

Report on Examination of Highway Transportation Agency, Year Ended June 30, 1963 (March 11, 1964) 3 pp.

Department of the California Highway Patrol

Report on Examination of the Department of the California Highway Patrol, Year Ended June 30, 1961 (May 24, 1962) 9 pp., 4 statements.

Department of Motor Vehicles

Report on Examination of Department of Motor Vehicles, Year Ended June 30, 1962 (February 6, 1963) 15 pp., 5 statements.

HIGHWAY TRANSPORTATION (Cont.)

.960 Department of Public Works - Division of Aeronautics

: Report on Examination of California Aeronautics Commission, Year Ended
June 30, 1961 (June 26, 1962) 3 pp., 3 statements.

Department of Public Works - Division of Highways

.nd, Progress Report on Review of Financial Statements of the State Highway Fund, Division of Highways, as of June 30, 1960 (April 5, 1961) 5 pp., 2 statements.

! Progress Report on Improvements in Internal Control, Division of Highways (May 15, 1961) 7 pp.

: Report on Review of Contractor Prequalification and Bonding Procedures, Division of Highways (May 19, 1961) 5 pp.

d Report on Review of Electronic Data Processing System Input Data, Division of Highways (May 24, 1962) 8 pp.

Report on Review of Federal Aid Procedures, Division of Highways (May 24, 1962) 36 pp.

Report on Cashiering, Billing, and Accounts Receivable, Division of Highways (June 8, 1962) 18 pp.

Report on Review of Equipment Department - Division of Highways (February 27, 1963) 41 pp.

Report on Examination of Highway Construction Contracts - Division of Highways (May 5, 1964) 10 pp.

Department of Public Works - Division of Bay Toll Crossings

ear Report on Examination of California Toll Bridge Authority, Richmond-San Rafael Bridge, Year Ended August 31, 1960 (December 14, 1961) 19 pp., 3 statements.

Report on Examination of California Toll Bridge Authority, Carquinez Strait Bridges, Year Ended August 31, 1960 (December 29, 1961) 15 pp., 4 statements.

Report on Examination of California Toll Bridge Authority, San Mateo, Hayward and Dumbarton Bridges, Year Ended August 31, 1960 (December 29, 1961) 16 pp., 3 statements.

Report on Examination of California Toll Bridge Authority, San Francisco-Oakland Bay Bridge, Year Ended August 31, 1960 (December 29, 1961) 15 pp., 5 statements.

Report on Examination of Division of San Francisco Bay Toll Crossings, Year Ended June 30, 1963 (April 16, 1964) 19 pp.

INDUSTRIAL RELATIONS

Report on Examination of Department of Industrial Relations, Year Ended June 30, 1960 (June 27, 1961) 24 pp., 4 statements.

Report on State Compensation Insurance Fund as Adjusting Agent for General Fund Activities, Year Ended June 30, 1960 and Report on Limited Review of State Compensation Insurance Fund, Six Months Ended June 30, 1960 and Year Ended December 31, 1959 (July 13, 1961) 9 pp., 3 statements, appendix 1 p., 2 statements.

Report on Examination of Office of State Fire Marshal, Year Ended June 30, 1960 (August 17, 1961) 10 pp., 4 statements.

Letter Report on an Examination of the Accounts of the Office of the Fire Marshal, Year Ended June 30, 1964 (December 30, 1964) 2 pp.

JUSTICE

Report on Examination of Department of Justice, Year Ended June 30, 1963 (June 3, 1964) 10 pp., 4 statements.

Report on Examination of Peace Officers' Training Fund, Year Ended June 30, 1963 (June 3, 1964) 6 pp., 2 statements.

MILITARY AFFAIRS

Report on Examination of the Military Department, Year Ended June 30, 1960 (March 8, 1961) 14 pp., 6 statements, 2 appendixes.

Letter Report on an Examination of the Accounts of the Military Department, Year Ended June 30, 1964 (December 8, 1964) 2 pp.

REGULATION AND LICENSING

Department of Alcoholic Beverage Control

Report on Examination of Department of Alcoholic Beverage Control and Alcoholic Beverage Control Appeals Board, Year Ended June 30, 1961 (December 6, 1961) 5 pp., 5 statements.

Districts Securities Commission

Report on Examination of Districts Securities Commission, Year Ended June 30, 1961 (May 10, 1962) 6 pp., 3 statements.

REGULATION AND LICENSING (Cont.)

Horse Racing Board

Report on Examination of California Horse Racing Board, Year Ended June 30, 1962 (November 9, 1962) 6 pp., 3 statements.

Department of Investment

Report on Examination of the Department of Investment, Division of Corporations, Year Ended June 30, 1960 (April 3, 1961) 7 pp., 4 statements.

Report on Examination of Savings and Loan Inspection Fund, Year Ended June 30, 1961 (April 10, 1962) 4 pp., 3 statements.

Report on Examination of Insurance Fund, Year Ended June 30, 1961 (June 14, 1962) 10 pp., 3 statements.

Report on Examination of State Banking Fund, Year Ended June 30, 1962 (March 1, 1963) 6 pp., 3 statements.

Report on Examination of Real Estate Fund, Year Ended June 30, 1963 (March 11, 1964) 6 pp., 2 statements.

Report on Examination of Real Estate Education and Research Fund, Year Ended June 30, 1963 (March 11, 1964) 6 pp., 2 statements.

Department of Professional and Vocational Standards

Report on Examination of Department of Professional and Vocational Standards, Year Ended June 30, 1962 (June 27, 1963) 8 pp., 3 statements.

Report on Examination of Board of Osteopathic Examiners Contingent Fund, Year Ended June 30, 1962 (December 3, 1962) 5 pp., 3 statements.

Public Utilities Commission

Report on Examination of Public Utilities Commission, Year Ended June 30, 1961 (November 7, 1961) 9 pp., 7 statements.

RESOURCES

Resources Agency Administrator

Letter Report on an Examination of the Accounts of the Resources Agency, the Department of Conservation of the Resources Agency, the State Water Quality Control Board, and the Regional Water Pollution Control Boards, Year Ended June 30, 1964 (September 30, 1964) 1 p.

RESOURCES (Cont.)

Department of Conservation

Report on Examination of Division of Forestry, Department of Natural Resources, Year Ended June 30, 1959 (April 7, 1961) 37 pp., 7 statements.

Report on Examination of the Division of Soil Conservation, General Fund - State Lands Act Fund, Year Ended June 30, 1961 (December 29, 1961) 5 pp., 4 statements.

Report on Examination of the Soil Conservation Development Fund, Year Ended June 30, 1961 (December 29, 1961) 6 pp., 2 statements.

Report on Examination of Division of Oil and Gas, Department of Natural Resources, Year Ended June 30, 1961 (March 30, 1962) 6 pp., 4 statements.

Report on Examination of Division of Mines, Department of Natural Resources, Year Ended June 30, 1961 (February 1, 1962) 5 pp., 4 statements.

Report on Examination of Division of Administrative Services - Department of Natural Resources, General Fund, Year Ended June 30, 1961 (July 6, 1962) 7 pp., 3 statements.

Fish and Game

Report on Examination of Fish and Game Preservation Fund, Year Ended June 30, 1962 (March 26, 1963) 5 pp., 10 statements.

Report on Examination of Wildlife Restoration Fund, Year Ended June 30, 1962 (April 8, 1963) 5 pp., 4 statements.

Department of Parks and Recreation

Report on Examination of Division of Recreation, Department of Natural Resources - General Fund, Year Ended June 30, 1961 (December 26, 1961) 5 pp., 3 statements.

Report on Examination of Committee for the Development of the California Public Outdoor Recreation Plan. Year Ended June 30, 1961 (December 29, 1961) 2 pp., 2 statements.

Summary Statement of Revenues and Expenditures for the Period from April 1, 1960 to December 31, 1961, Squaw Valley State Park (February 5, 1962) 3 pp.

Report on Examination of Division of Small Craft Harbors, Department of Natural Resources, Year Ended June 30, 1961 (March 15, 1962) 11 pp., 5 statements.

Report on Examination of State Park Contingent Fund, Year Ended June 30, 1961 (June 15, 1962) 5 pp., 2 statements.

RESOURCES (Cont.)

Department of Parks and Recreation (Cont.)

Report on Examination of Division of Beaches and Parks - State Beach and Park Fund, Department of Natural Resources, Year Ended June 30, 1961 (June 15, 1962) 10 pp., 4 statements.

Letter Report on an Examination of the Accounts of the Department of Parks and Recreation, Year Ended June 30, 1964 (November 18, 1964) 2 pp.

Water Resources - Department of Water Resources

Report on Examination of the Department of Water Resources, Year Ended June 30, 1961 (December 28, 1962) 53 pp., 19 statements.

Report on a Review of Internal Auditing Within the Department of Water Resources, 1963 (November 14, 1963) 10 pp., 2 appendixes.

Review of Accounting System - Department of Water Resources, June 1963 (June 25, 1964) 13 pp.

Water Resources - State Water Rights Board

Report on Examination of State Water Rights Board, Year Ended June 30, 1960 (May 26, 1961) 12 pp., 4 statements.

Letter Report on an Examination of the Accounts of the State Water Rights Board, Year Ended June 30, 1964 (November 24, 1964) 1 p.

Water Resources - Reclamation Board

Report on Examination of Reclamation Board, Year Ended June 30, 1960 (May 23, 1961) 16 pp., 4 statements.

Letter Report on an Examination of the Accounts of the Reclamation Board, Year Ended June 30, 1964 (November 27, 1964) 2 pp.

Water Resources - Colorado River Boundary Commission

Report on Examination of Colorado River Boundary Commission, Year Ended June 30, 1962 (January 23, 1963) 3 pp., 3 statements.

Water Resources - Klamath River Compact Commission

Report on Financial Statements of Klamath River Compact Commission, Period from September 11, 1957 to June 30, 1961, Inclusive (May 24, 1962) 3 pp., 2 statements.

RESOURCES (Cont.)

Water Resources - California-Nevada Interstate Compact Commission

Report on Examination of California-Nevada Interstate Compact Commission, Year Ended June 30, 1961 (May 3, 1962) 5 pp., 3 statements.

Water Resources - Water Quality Control Board

Report on Examination of Water Pollution Control Board, Year Ended June 30, 1961 (February 1, 1962) 7 pp., 4 statements.

SAN FRANCISCO PORT AUTHORITY

Report on Examination of San Francisco Port Authority, Year Ended June 30, 1962 (June 28, 1963) 31 pp., 3 statements.

VETERANS AFFAIRS

Department of Veterans Affairs

Report on Special Review of Operations of Post Exchange, Veterans' Home of California, Year Ended June 30, 1959 (May 8, 1961) 6 pp.

Report on Examination of Department of Veterans Affairs, Veterans' Home of California, Year Ended June 30, 1961 (November 13, 1961) 14 pp., 5 statements.

Report on Examination of Department of Veterans Affairs, Veterans' Home of California, Post Fund, Year Ended June 30, 1961 (November 14, 1961) 12 pp., 5 statements.

Report on Examination of Department of Veterans Affairs, Veterans' Home of California Association of Companies, Six Months Ended June 30, 1961 (November 16, 1961) 5 pp., 4 statements.

Letter Report to Joint Legislative Audit Committee re Veterans' Home of California concerning income of members in the home (December 28, 1961) 6 pp.

Report on Examination of Department of Veterans Affairs, Year Ended June 30, 1962 (January 25, 1963) 5 pp., 3 statements.

MISCELLANEOUS

Summary of Reports Issued by the Office of the Auditor General, December 30, 1959 to June 15, 1961 (July 28, 1961) 18 pp.

Summary of Reports Issued by the Office of the Auditor General, June 15, 1961 to September 28, 1962 (November 19, 1962) 40 pp.

MISCELLANEOUS (Cont.)

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Report on Review of Internal Auditing Within the Executive Branch of the California State Government (December 10, 1962) 32 pp.

Summary of Reports Issued by the Office of the Auditor General, September 1962 to September 1963 (September 19, 1963) 22 pp.

Summary of Reports Issued by the Office of the Auditor General, September 1, 1963 to October 31, 1964 (November 23, 1964) 23 pp.

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TEXT OF STATUTE PERTAINING TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE AND
THE AUDITOR GENERAL

Article 1. Joint Legislative Audit Committee

10500. The Legislature finds that auditing is now conducted by various state agencies and recognizes the needs of the executive branch of the State Government for periodic and special audits of the revenues and expenditures of any state agency, and the accounting and fiscal reporting systems established in state agencies, as a means of insuring the proper and lawful expenditure of state funds. The Legislature, also, recognizes the necessity of an independent audit, in addition to the audit conducted within the executive branch of State Government, for the use of both the executive and legislative branches of the State Government in establishing a sound fiscal and administrative policy for the government of the State.

Therefore, it is the desire of this Legislature that the internal auditing be coordinated in the executive branch of the government in the interest of economy and efficiency. It is also the desire of the Legislature to create the Office of the Auditor General, whose primary duties shall be to examine and report annually upon the financial statements prepared by the executive branch of the State and to perform such other related assignments as may be requested by the Legislature. The authority of the office under the direction of the Joint Legislative Audit Committee is confined to examining and reporting and is in no way to interfere with adequate internal audit to be conducted by the executive branch of the government.

10501. The Joint Legislative Audit Committee is hereby created. The committee shall determine the policies of the Auditor General, ascertain facts, review reports and take action thereon, and make reports and recommendations to the Legislature and to the houses thereof concerning the state audit, the revenues and expenditures of the State, its departments, subdivisions, and agencies, whether created by the Constitution or otherwise, and such other matters as may be provided for in the Joint Rules of the Senate and Assembly. The committee has a continuing existence and may meet, act, and conduct its business at any place within this State, during the sessions of the Legislature or any recess thereof, and in the interim period between sessions.

10502. The committee shall consist of three Members of the Senate and three Members of the Assembly who shall be selected in the manner provided for in the Joint Rules of the Senate and Assembly. The committee shall elect its own chairman. Vacancies occurring in the membership of the committee between general sessions of the Legislature shall be filled in the manner provided for in the Joint Rules of the Senate and Assembly. A vacancy shall be deemed to exist as to any member of the committee whose term is expiring whenever such member is not re-elected at the general election.

10503. The committee is authorized to make rules governing its own proceedings and to create subcommittees from its membership and assign to such subcommittees any study, inquiry, investigation, or hearing which the committee itself has authority to undertake or hold. The provisions of Rule 36 of the Joint Rules of the Senate and Assembly relating to investigating committees shall apply to the committee and it shall have such powers, duties and responsibilities as the Joint Rules of the Senate and Assembly shall from time to time prescribe, and all the powers conferred upon committees by Section 37, Article IV, of the Constitution.

10504. The committee shall have authority to appoint an Auditor General and a deputy who shall serve at the pleasure of the committee. The committee

shall fix the salary of the Auditor General. The funds for the support of the committee shall be provided from the Contingent Funds of the Senate and the Assembly in the same manner that such funds are made available to other joint committees of the Legislature.

Article 2. Auditor General

10520. There is in the State Government the Legislative Audit Bureau. The bureau is in charge of the Auditor General.

10521. The Auditor General, prior to his appointment, shall possess the following minimum qualifications:

(a) He shall be in possession of a valid certificate issued by the State Board of Accountancy to practice as a certified public accountant or a public accountant.

(b) He shall have had at least seven years of experience in governmental accounting in an executive position involving responsibility for directing the work of an auditing staff of not less than 20 accountants.

(c) Or he shall have any combination of experience which in the opinion of the committee is the equivalent of (b).

10522. The Auditor General shall be paid the salary fixed by the Joint Legislative Audit Committee and shall be repaid all actual expenses incurred or paid by him in the discharge of his duties.

10523. The Auditor General may employ and fix the compensation, in accordance with Article XXIV of the Constitution, of such professional assistants and clerical and other employees as he deems necessary for the effective conduct of the work under his charge.

10524. The permanent office of the Auditor General shall be in Sacramento, where he shall be provided with suitable and sufficient offices. When in his

judgment the conduct of his work requires, he may maintain offices at other places in the State.

10525. All books, papers, records, and correspondence of the bureau pertaining to its work are public records and shall be filed at any of the regularly maintained offices of the Auditor General, except:

(a) Papers or memoranda that are of no further use may be destroyed upon approval of the Joint Legislative Audit Committee.

(b) Personal papers and correspondence of any person receiving assistance from the Auditor General when such person has requested in writing that his papers and correspondence be kept private and confidential. Such papers and correspondence shall become public records whenever the Auditor General or the Legislature shall so order or the written request is withdrawn.

(c) Papers, correspondence or memoranda pertaining to any audit or investigation not completed, when in the judgment of the Auditor General, disclosure of such papers, correspondence, or memoranda will impede such audit or investigation.

(d) Any record, document, or information, the disclosure of which is restricted by law or public policy.

10526. It shall be a misdemeanor for the Auditor General or any employee of the bureau to divulge or make known in any manner not permitted by law, any particulars of any record, document, or information the disclosure of which is restricted by law.

10527. The Auditor General during regular business hours shall have access to, and authority to examine, any and all books, accounts, reports, vouchers, correspondence files, and other records, bank accounts, and money or other property, of any agency of the State whether created by the Constitution or otherwise, and it shall be the duty of any officer or employee of any such agency, having such records or property in his possession or under his control, to permit access to,

and examination thereof upon the request of the Auditor General or his authorized representative. Any officer or person who shall fail or refuse to permit such access and examination, shall be guilty of a misdemeanor.

10528. The Auditor General shall examine and report annually upon the financial statements prepared by the executive branch of the State to the end that the Legislature will be informed as to the adequacy of such financial statements in compliance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year. In making such examination, he is authorized to make such audit examination of accounts and records, accounting procedures and internal auditing performance as the Joint Legislative Audit Committee may determine and specifically designate to be necessary to proper reporting to the Legislature in accordance with the statement of purposes set forth in Section 10500. He shall make such special audits and investigations of any state agency whether created by the Constitution or otherwise, as requested by the Legislature or any committee of the Legislature.

STATEMENT OF AUDIT POLICY OF
JOINT LEGISLATIVE AUDIT COMMITTEE

(Prepared by the Legislative Analyst)

A. GENERAL

The scope and extent of the auditing which should be performed by the Auditor General under Chapter 1699/1955 is a matter which does not readily lend itself to a precise definition since it depends to a considerable degree upon the auditing being done at other levels in the state government.

In large corporate enterprises current practice recognizes auditing carried on at three distinct levels: at the operating level, at the top management level, and at the proprietary level.

In a large oil company, for example, an operating department, such as the marketing department, would have internal auditors reporting directly to the head of that department whose function would be to examine the transactions in service stations, bulk plants and other units of the marketing department to see that they were being properly handled and to satisfy the head of that department that his instructions were being carried out and his staff was doing an honest and efficient job. This type of auditing can properly be described as internal auditing at the operating level.

In the same company another group of auditors reporting directly to an appropriate top level official, such as the president, controller, et cetera, would be responsible for review of all corporate operations, including the preparation of financial statements. An important part of the responsibility of this group would be an evaluation of the work of the internal auditors at the departmental level, but it would not involve a duplication of the work of

the latter except to the extent necessary to determine that they were doing an adequate job, and the work of the two groups would involve a high degree of cooperation. This type of auditing can be described as internal auditing at the top management level. At the third level, independent auditing would be done by outside public accountants reporting to the stockholder, either directly or through the board of directors, whose responsibility would be to report on the fiscal activities of the corporation as a whole. One important part of the work of these auditors would be the evaluation of the work of the two groups of internal auditors and the scope of their work would depend on the adequacy of the job being done by the internal auditors and the degree of cooperation received from them, which in typical corporate operations is very high because of the existence of the profit motive.

The determination of the extent of the work of the auditors at the three different levels is a matter of prudent business management and may vary according to conditions, but the entire audit operation is essentially an integrated whole, and the responsibilities of each group to its "client" are essentially the same.

The extent of the work of the outside public accountants would in any case be directly related to the adequacy of the work of the two groups of internal auditors.

The report of Price Waterhouse & Co. recognizes the existence of and the necessity for internal auditing at two levels within the state government. These are roughly comparable to those found in private industry, i.e., the departmental internal auditors in the Departments of Public Works, Employment, Motor Vehicles, et cetera, are comparable to those in the marketing department of the corporation used as an illustration, while the auditors in the Department of Finance are comparable to those reporting to the president or controller.

The report also recommends the establishment of a third level, or an independent audit responsible to the Legislature such as that provided for in the

Auditor General Bill, Chapter 1699/1955, which it envisions as partaking of many of the characteristics of the work performed by outside public accountants for private industry as referred to in the foregoing illustration.

The proper extent of this independent auditing is difficult to describe in precise terms, since it depends to a large extent upon the nature and scope of the internal auditing carried on at the two levels and upon the degree of cooperation existing between the three levels of auditors. It is, therefore, largely a matter of judgment and we know of no more reliable judgment available than the professional opinion expressed in the Price Waterhouse & Co. report which will be discussed later. Certainly, as a bare minimum it should be extensive enough to permit the Legislature to receive an independent evaluation of the adequacy of all internal auditing carried on within the state government.

B. POLICY AS INDICATED IN THE LAW AND PRICE WATERHOUSE & CO. REPORT

Pertinent statements in the law appear to be the following:

"Section 10500. The Legislature, also, recognizes the necessity of an independent audit, in addition to the audit conducted within the executive branch of State Government, for the use of both the executive and legislative branches of the State Government in establishing a sound fiscal and administrative policy for the government of the State. * * * It is also the desire of the Legislature to create the Office of the Auditor General, whose primary duties shall be to examine and report annually upon the financial statements prepared by the executive branch of the State and to perform such other related assignments as may be requested by the Legislature.

"Section 10501. The Joint Legislative Audit Committee is hereby created. The committee shall determine the policies of the Auditor General, ascertain facts, review reports and take action thereon, and make reports and recommendations to the Legislature and to the houses thereof concerning the state audit, the revenues and expenditures of the State, its departments, subdivisions, and agencies whether created by the Constitution or otherwise, and such other matters as may be provided for in the Joint Rules of the Senate and Assembly."

The Price Waterhouse & Co. report contains the following comments on the duties of the Auditor General:

"As to the duties and functions of the office: the auditor should have the primary duty, and necessary authority, to examine and report annually upon the financial statements of the State; such statements should be required to be furnished to him by the Director of Finance, the State Controller and State Treasurer or other principal accounting officials. This should not require the annual examination of the statements and accounts of each department or agency; the scope of the work and the selection of the agencies should be left to the discretion of the auditor and his counseling committee. He should make such other examinations or investigations as he believes desirable and those he is directed to perform by the committee only, or the Legislature acting through it. * * *

"The auditor's authority, beyond that of examining, should be confined to reporting objectively and independently. The reports should include such comments, recommendations and suggestions as the auditor wishes to make but he should have no power to enforce them nor should he otherwise influence or direct executive or legislative actions. * * *

"The objectives of these examinations are given in the definition of the term 'auditing' which was set forth earlier in this section; restated briefly they are to ascertain:

"That the executive branch is carrying out only the activities and programs authorized by the Legislature and is doing so effectively and efficiently.

"That expenditures are made and revenues are collected in accordance with the laws and regulations.

"That the assets of the State are safeguarded and utilized properly.

"That the reports and financial statements prepared by the executive branch disclose all material information necessary to a proper evaluation of the State's activities."

We do not believe there is any basic difference between the duties of the position as outlined in the Price Waterhouse & Co. report and as contemplated by the law.

In a position at the level of Auditor General, which it must be remembered is the highest ranking auditing position in the state government structure by a considerable margin, the duty to "examine and report annually upon the financial statements prepared by the executive branch of the State" government necessarily,

we believe, carries with it the responsibility to take all steps deemed necessary to satisfy himself as to the correctness of these statements from the standpoint of the objectives stated by Price Waterhouse & Co. This, as we see it, would involve not only a review of the procedures used by the internal auditors but might also involve, in selected instances, a review of their actual performance on the job as well as some examination of original records on its own responsibility.

C. RELATIONSHIP TO DEPARTMENT OF FINANCE AUDIT

As previously indicated we believe the proper relationship between the Auditor General and the Department of Finance auditing is the same as would exist between independent auditors and top level internal auditors in a large corporation.

The last sentence in Section 10500 of the law reads as follows:

"The authority of the office (i.e., Auditor General) under the direction of the Joint Legislative Audit Committee is confined to examining and reporting and is in no way to interfere with adequate internal audit to be conducted by the executive branch of the government."

If this sentence is to have meaning, the term "confined to examining and reporting" which "is in no way to interfere with adequate internal audit to be conducted by the executive branch of the government", should probably be construed to mean that the Auditor General is expected to confine his audit primarily to a review of the adequacy and thoroughness of the executive internal audit as reflected in statements, controls, checks of working papers, and other procedures ordinarily followed by independent auditors, and a reporting of the findings to the Legislature. It should probably be construed that the Legislature intended that duplication should be minimized to that required to ascertain the adequacy of the internal audit, and also that the office is to be entirely divorced from

administrative responsibility as to the auditing necessary for the proper day-to-day operations of the state government. To us it does not mean or imply that the Legislature necessarily accepts any existing concept of internal auditing as being proper, and does not preclude any finding that the existing pattern of internal auditing is either excessive or inadequate.

The interpretation of "adequacy" should probably be limited to the minimum ordinarily deemed to be necessary by certified public accountants. A review of the report prepared by the accounting firm of Price Waterhouse & Co. which was presented to committees of the Legislature in support of this bill, and which was the report used as a basis for preparing the bill, indicates the emphasis which is placed upon minimizing duplication of audit.

"The executive branch through its Department of Finance should be provided with internal accounting controls and procedures and collateral auditing staff sufficient to permit the Governor to report with confidence to the Legislature and the electorate. Such reports would be provided by the Director of Finance and his chief accounting officer who would be able to present the reports with the fullest confidence and without reliance on the work of officials or agencies not under the direction of the executive branch.

"The Legislature, either acting as a whole or through a special committee, should select and appoint an auditor to examine and report upon the financial statements submitted by the Governor and to undertake such special inquiries as the Legislature might direct."

Also, "The internal audit program is, of course, a part of internal accounting controls and would be reviewed by the auditor for the Legislature who would report on its adequacy."

The decision of Price Waterhouse & Co. to recommend that the bulk of auditing should be conducted as internal audit, and presumably the Legislature's acceptance of that position, varies from the concept in earlier bills which transferred the entire audit function from the executive to the Legislature. The principal concern of Price Waterhouse would appear to be that an audit should be made which is independent of the executive. Several alternative proposals for creating independent audits were suggested, but the study concluded that "* * * the principal

auditing should be performed within the executive branch and reviewed by the proposed auditor for the Legislature." "The auditor should be an agent of the Legislature. * * *

D. RELATIONSHIP TO LEGISLATIVE ANALYST

In the 1953 session a bill establishing an Auditor General failed of passage, and members of the committee which heard the bill, among other things, commented upon the need to examine the relationship with the Legislative Analyst. Late in that session a concurrent resolution was introduced by Senator Hulse, Chairman of the budget committee, and adopted unanimously by the Legislature, authorizing a study of this entire problem by an independent firm of certified public accountants. The firm of Price Waterhouse & Co., which made this study, gave careful consideration to the proper relationship between the proposed Auditor General and the Legislative Analyst and states in its report,

"It is our opinion that the area of activity proposed for the Auditor General requires training and talent differing in an important degree from that called for in the Legislative Analyst. The latter should be primarily a governmental financial consultant and analyst, an expert in administrative research. The Auditor General must be a trained public accountant-auditor fully familiar with accounting and auditing techniques. These attributes might conceivably be combined in one person; they could be combined in one office. However, the tasks in California are large enough and important enough to warrant their separation. Furthermore, the position of Auditor General is of importance sufficient to warrant an independent office with authority commensurate with its responsibilities. A position of lesser importance will not attract to it the caliber of personnel that it needs."

It further stated,

"The legislative committee with which the Auditor General would be associated should, it seems to us, consist of a relatively small number of members, say not more than six, of the Assembly and Senate, qualified to consider the general scope of the audit program and to evaluate the recommendations and suggestions that would be presented to it. The activities of the committee should, we believe, be confined to consideration of auditing, accounting and financial reporting. It should not as a committee function reach into areas of policy or budget, particularly those for which other committees may have been formed. However, it should not be precluded from review and comment on forms of organization, funds, or legislation having a direct bearing on accounting and financial reporting."

We would interpret this to mean that the Auditor General would be concerned with problems of efficiency and economy or adequacy or inadequacy in respect to the auditing and accounting functions of government and with the form of the statements which emanate therefrom. In these areas the Legislative Analyst should transpose audit findings of the Auditor General into budget recommendations affecting those various state agencies which are responsible for the audit, accounting, and financial control functions. In all other operations of state government, the Legislative Analyst should be responsible for budget and performance review and evaluation.

The Price Waterhouse study further points out that the primary task of the Legislative Analyst

"is to conduct a continuous research and fact-finding program on the State's operations with particular emphasis on the Governor's Budget, appropriation bills and reorganization proposals. It provides critical analyses of financial programs and proposed state services and furnishes comparative data relative to the programs in other states. Also, it serves the members of the Legislature and its committees as a research and reference organization."

We are in agreement with these statements. We believe that their emphasis upon an audit process which reviews the techniques and reporting statements of the executive by the Auditor General on the one hand, and a review of the executive performance as reflected in management and organization and legislative reference studied by the Legislative Analyst, on the other, serves as a good basis for distinguishing between the functions of these two officers.

E. RELATIONSHIP TO THE STATE CONTROLLER

The Controller's Office is a state agency like any other state department and as such is subject to audit by the Department of Finance under Section 13294 of the Government Code. The Auditor General would, of course, have the same responsibility for reviewing the audit procedures used here as he would have with respect to any audits made by the Department of Finance.

The Controller's Office is one of the principal sources of financial statements covering the state operations and, as such, its activities would be of special interest to the Auditor General.

The Controller's Office also does some "post-auditing" of the expenditures by local governments of state subventions or loans and we believe it would be an appropriate part of the Auditor General's responsibility to review the procedures used.

GENERALLY ACCEPTED AUDITING STANDARDS

In reports issued by the Office of the Auditor General on examinations of the financial statements of a fund, agency, department, or other unit, reference is made to the examination having been made in accordance with "generally accepted auditing standards". This term is used to mean the broad standards specified by the American Institute of Certified Public Accountants and widely adopted and adhered to by firms of certified public accountants. These standards are as follows:

General standards:

- (1) The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor.
- (2) In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.
- (3) Due professional care is to be exercised in the performance of the examination and the preparation of the report.

Standards of field work:

- (1) The work shall be planned adequately and assistants, if any, are to be supervised properly.
- (2) There is to be a proper study and evaluation of the existing internal control as a basis for reliance thereon, and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted.
- (3) Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a

reasonable basis for an opinion regarding the financial statements under examination.

Reporting standards:

- (1) The report shall state whether the financial statements are presented in accordance with generally accepted principles of accounting.
- (2) The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.
- (3) Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
- (4) The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an over-all opinion cannot be expressed, the reasons therefor should be stated. In all cases where an auditor's name is associated with financial statements the report should contain a clear-cut indication of the character of the auditor's examination, if any, and the degree of responsibility he is taking.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Section 10528 of the Government Code states in part that "The Auditor General shall examine and report annually upon the financial statements prepared by the executive branch of the State to the end that the Legislature will be informed as to the adequacy of such financial statements in compliance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year." The code recognizes that financial statements to be useful to those who need to rely upon them must be based on a body of rules that are generally accepted and are applied consistently.

A body of accounting principles and procedures recommended as being generally applicable to governmental entities has been formulated by the National Committee on Governmental Accounting, which is a committee consisting of 10 advisory committees from leading accounting organizations in the United States. The Office of the Auditor General has taken the position that the accounting principles and procedures formulated by the National Committee on Governmental Accounting are applicable to the State of California and to other state governments. In expressing an opinion as to whether the financial statements of a fund or agency of the State of California present fairly its financial position as of a given date and the results of its operations for the period ending on that date in conformity with generally accepted accounting principles, the criteria used by the Office of the Auditor General have been the principles and procedures recommended by the National Committee on Governmental Accounting, together with other principles considered as being applicable to both governmental and private organizations.

The recommended accounting principles and procedures are as follows:

- (1) A governmental accounting system must make it possible: (a) to show that legal provisions have been complied with; and (b) to reflect the financial condition and financial operations of the government.
- (2) If legal and sound accounting provisions conflict, legal provisions must take precedence. It is, however, the finance officer's duty to seek changes in the law which will make such law in harmony with sound accounting principles.
- (3) The general accounting system should be on a double-entry basis with a general ledger in which all financial transactions are recorded in detail or in summary. Additional subsidiary records should be kept where necessary.
- (4) Every governmental organization should establish the funds called for either by law or by sound financial administration. It should be recognized, however, that funds introduce an element of inflexibility in the financial system. Accordingly, consistent with legal provisions and requirements of sound financial administration, as few funds as possible should be established.
- (5) Depending on the legal and financial requirements mentioned immediately above, the following types of funds are recognized: (a) general, (b) special revenue, (c) working capital, (d) special assessment, (e) bond, (f) sinking, (g) trust and agency, and (h) utility or other enterprise. This classification of funds to the extent required should be followed in the budget document and in the governmental organization's financial reports.
- (6) A complete balancing group of accounts should be established for each fund. This group should include all of the accounts necessary to .

forth the financial condition and financial operations of the fund and to reflect compliance with legal provisions.

- (7) A clear segregation should be made between the accounts relating to current assets and liabilities and those relating to fixed assets and liabilities. With the exception of working capital, utility or other enterprise, or trust funds, fixed assets should not be carried in the same funds with the current assets but should be set up in a self-balancing group of accounts known as the general fixed asset group of accounts. Similarly, except in special assessment and utility funds, long-term liabilities should not be carried with the current liabilities of any fund but should be shown in a separate self-balancing group of accounts forming part of the general bonded debt and interest group of accounts.
- (8) The fixed asset accounts should be maintained on the basis of original cost, or the estimated cost if the original cost is not available, or, in the case of gifts, the appraisal value at the time received.
- (9) Depreciation on general governmental fixed assets should not be computed unless cash for replacements can legally be set aside. Depreciation on such assets may be computed for unit cost purposes even if cash for replacements cannot legally be set aside providing these depreciation charges are used for memorandum purposes only and are not reflected in the accounts.
- (10) The accounting system should provide for budgetary control for both revenues and expenditures, and the financial statements should reflect, among other things, budgetary information.
- (11) The use of the accrual basis in accounting for revenues and expenditures is recommended to the extent applicable. Revenues, partially

offset by provisions for estimated losses, should be taken into consideration when earned, even though not received in cash. Expenditures should be recorded as soon as liabilities are incurred.

- (12) Revenues should be classified by fund and source; and expenditures by fund, function, department, activity, character, and by main classes of objects, in accordance with standard classifications.
- (13) Cost accounting systems should be established wherever costs can be measured. Each cost accounting system should provide for the recording of all of the elements of cost incurred to accomplish a purpose, to carry on an activity or operation, or to complete a unit of work or a specific job. Although depreciation on general governmental fixed assets may be omitted in the general accounts and reports, it should be considered in determining unit costs if a cost accounting system is used.
- (14) A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports.

RULES OF THE JOINT LEGISLATIVE AUDIT COMMITTEE

The committee operates under the following rules which were adopted in accordance with the authority granted in the enabling act:

- (1) The officers of this committee are a chairman and vice chairman, and the committee shall appoint an Auditor General who shall act as secretary.
- (2) Four members of the committee shall constitute a quorum; provided, however, that such number shall include no less than two members from the Senate and two members from the Assembly.
- (3) Any action of the committee shall require an affirmative vote of not less than two of the Senate members and two of the Assembly members of the committee.
- (4) The chairman of the committee is authorized to appoint subcommittees, to specify their duties, and to designate the membership of the subcommittees.
- (5) The chairman is authorized to fix the time and place of each meeting of the committee and shall give each member reasonable notice of each meeting.
- (6) The chairman shall preside at meetings when present, and in his absence the vice chairman shall preside. The vice chairman of this committee shall act as chairman in the case of a vacancy in the office of the chairman, or whenever such authority is delegated by the chairman.
- (7) The secretary shall keep a complete record of the meetings of the committee and of action taken by it.

- (8) The committee shall reorganize and elect new officers prior to the adjournment of each general session of the Legislature. The officers of the committee shall hold office until their successors are elected and have qualified.
- (9) The Legislative Counsel shall be the counsel for the Joint Legislative Audit Committee.